



# CITY OF FALLS CHURCH

DATE: November 16, 2009

TO: Honorable Mayor Gardner and City Council Members

FROM: John Tuohy, Chief Financial Officer

THROUGH: Wyatt Shields, City Manager

SUBJECT: FY2011 Preliminary Estimates

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Council members have requested a preliminary estimate for FY2011 prior to the worksession scheduled with the School Board on November 30. The table at the conclusion of this memorandum should be viewed as providing an order of magnitude of the issues to be dealt with in developing the FY2011 budget rather than a definitive starting point.

In compiling the preliminary estimates, there are a number of assumptions used and a number of factors that remain unknown:

- There is an assumption that there will be little, if any, impact of a possible economic recovery in calendar 2010. This is partly due to the lack of consensus among experts regarding the nature, timing and extent of a recovery. It is also due to the lag between economic recovery and municipal revenues resulting from the annual assessment process for the largest revenue sources.
- Real estate taxes are assumed to decline by 9.25% over all for calendar 2010 and an additional 2% for calendar 2011. The assessments for residential real estate are based on sales during the year and it can be said with some confidence that there will be a slight decline in the value of single family dwellings and a much larger decline in condominiums. The decline in commercial real estate will be very significant but difficult to state with authority at this time as the assessment factors are net revenues and capitalization rates. Neighboring jurisdictions are currently assuming declines in commercial values in the range of 18% to 20%; thus it seems reasonable to assume similar declines in the City.
- Sales tax estimates are problematic at this time as there are only two months of data with what we assume is the corrected situs by the State. Offsetting the large, permanent, decline from prior years is an assumption that BJ's will be open for all of FY2011 and will generate \$500,000 of new taxes for the City (sales, meals, cigarette, etc).

- Permit income is assumed to be low as there are no new projects likely to begin during FY2011. Residential new construction resulting from infill, tear-down and rebuild and improvements continues, but at a rate of about 20% less than in FY2007.
- Revenue from the Commonwealth is very likely to continue its decline as the State seeks to solve the massive budgetary issues it faces. It is an almost certainty that there will be further reductions in State support for public safety, constitutional officers, libraries and courts. The consensus at this time is that the amounts appropriated for personal property relief will not be reduced in FY2011; however, that should not be interpreted as any kind of absolute assurance. The City received \$2 million from the State for personal property relief out of a State-wide appropriation of \$950 million.
- The transfer from the water fund is assumed to remain relatively constant. An adverse ruling by the Circuit Court, if sustained by the Supreme Court, would have an adverse effect on the City's budget in an already difficult year.
- For purposes of deriving a preliminary estimate, it is assumed that the operating cuts approved for FY2010 will carry forward in both the General Fund and School Fund. The savings from the job freeze are not carried forward as personnel savings for FY2011 will result from a deliberate process rather than from the *ad hoc* savings that result from employees resigning.
- There is no amount in the estimate for any increase in the cost of health care. Health care costs have increased at a rate well above the rate of inflation for many years, with the cost containment coming from plan redesign and increased patient co-pays. It is unknown at this time either what the increase may be in cost or what the cost containment approaches may be in response.
- The pension costs for the City's basic and police pension plans are known. The School Division has approximately 100 employees in the basic plan; therefore that is a known expense in the School fund. The costs of VRS will not be known until the General Assembly has acted in the spring. Currently the proposals for FY2011 envision not funding VRS to the actuarially required level and not funding the FY2010 amounts for the last quarter of the year. The difference between funding and not funding for FY2011 is approximately \$1 million. The FY2010 "holiday" will result in a windfall for the School Division of approximately \$650,000. If the General Assembly acts on the suggestions it will result in less pressure on the FY2011 budget but increase pension funding requirements for FY2012 and beyond.
- The amount of School fund balance available for FY2011 expenditures is unknown. The amount is dependent on under spending during the year as well as revenues coming in above budget. It appears that the revenues will contribute little, if anything to fund balance and spending does not appear to be out of line with budgeted figures. The VRS "holiday", if approved, will go directly to fund balance for FY2010.

Bearing the above in mind, the preliminary estimate for FY2011 is as follows:

2011 estimate	
Revenues:	
RE Tax	30,750,158
PP Tax	3,389,223
Other local taxes	9,371,400

Permit, fees, and Licenses	3,071,790
Fines and Forfeitures	1,516,500
Revenue from Interest and Rent	95,200
Charges for services	2,561,354
Miscellaneous	39,500
Gifts and contributions	126,392
Recovered costs	1,800,188
Commonwealth	3,732,880
Federal	579,287
Transfer from Water Fund	2,400,000
Total Revenues	<u>59,433,871</u>
Expenses:	
General government	37,462,561
Less	
FY2010 reductions	(600,000)
Plus:	
Pension costs	775,000
	<u>37,637,561</u>
School transfer	29,624,825
Less:	
FY2010 reductions	(300,000)
Plus:	
Pension costs	130,000
	<u>29,454,825</u>
Total GF requirements	67,092,386
Total GF revenues	<u>59,433,871</u>
Difference	<u>7,658,515</u>

As can be seen, these estimates represent a very broad brush approach with significant effort required between now and March when the City Manager will present his budget. The estimates presented may change by very substantial amounts, resulting in a change to the bottom line that could easily be in the millions of dollars.